**DECLASSIFIED** PA/HO, Department of State **E.O.** 12958, as amended

June 9, 2005

DEF 12-5 PAK

Department of State

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I QURING MY MEETING WITH HIM OCTOBER 5 ON HIS PLANS TO ATTEND UN COMMEMORATIVE SESSION (SEPTELI), PRESIDENT YAHYA KHAN SAID HE HAD BEEN BRIEFED ON MY DISCUSSIONS ON ARMS ISSUE WITH GOPEREPS IN LAST SEVERAL DAYS. HE SAID PARTICULARLY HE HAD BEEN GIVEN RE-PORT BY FONSEC OF MY DISCUSSION WITH LATTER OCTOBER 4 (REFTEL) . YAHYA SAID HE WAS PLEASED THAT OUR MILITARY REPS COULD NOW GET DOWN TO SPECIFIC DISCUSSIONS.

2. HE THEN IMMEDIATELY RECALLED CONCERN HE HAD EXPRESSED TO AMBASSADOR FARLAND LAST JUNE AND AGAIN IN SEPTEMBER OVER PROBLEM PAKISTAN FACES IN PAYING FOR ANY ITEMS IT WISHES PURCHASE. HE SAID AGAIN THAT USG KNOWS BETTER THAN HE HOW DIFFICULT PAKISTAN'S FINANCIAL SITUATION IS. YAHYA SAID HE HOPED MOST SINCERELY THAT USG WOULD FIND WAYS TO MAKE PROPOSED SALES FEASIBLE EVEN WITHIN CASH-PAYMENT FRAMEWORK. HE AGREED THAT FINANCING PROBLEM WOULD BE LARGELY AFFECTED BY PAKISTAN'S CHOICE OF ALTERNATIVES, E.G., FOR USED AS AGAINST NEW EQUIPMENT. HE REMARKED THAT US HAD LARGE "SURPLUS" STOCKS AND THAT WE SHOULD BE ABLE PROVIDE SUBSTANTIAL CONCESSIONS ON PRICES THEREFOR. HE EXPRESSED HOPE THAT OUR NE-GOTIATORS WILL ALSO BE GIVEN AUTHORITY TO COME UP WITH CONCES-SIONS ON TIMING OF PAYMENTS.

3. YAHYA SAID HE AND HIS GOVERNMENT WOULD FACE VERY DIFFICULT SITUATION IF IT TURNS OUT THAT PAKISTAN IS UNABLE TO PAY FOR US EQUIPMENT WHICH IT REQUIRES AND DESIRES AND WHICH USG HAS OF -

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## TELEGRAM

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FERED TO SELL. HE AFFIRMED GOP'S INTEREST IN MAINTAINING SECRECY ON OUR SALES OFFER, ADDING THAT IT WAS PARTICULARLY IMPORTANT AT LEAST UNTIL IT WAS CLEAR WHETHER ACTUAL SALES WOULD BE WORKED OUT.

4. I ASSURED YAHYA THAT AMBASSADOR HAD REPORTED YAHYA'S CONCERN OVER FINANCIAL PROBLEM, AND THAT USG WAS INDEED AWARE OF
THIS PROBLEM. I SAID I WOULD AGAIN REPORT YAHYA'S CONCERN. DISCUSSION THIS SUBJECT CONCLUDED AS WE AGREED OUR MILITARY REPS
SHOULD GET ON BROMPTLY WITH THEIR DISCUSSIONS.

